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Dominican Republic

Sugar

Annual

2004

Approved by:
David G. Salmon
Dominican Republic

Prepared by:
Carlos G. Suarez

Report Highlights:
Dominican sugar production is estimated at 505,000 Metric Tons Raw Value for the November 2003-October 2004 marketing year (MY 2004). Domestic sugar consumption is fairly stable at 320,000 MTRV and evenly divided between raw and refined consumption. The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar at 185,335 MTRV.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

Executive Summary

Dominican sugar production is estimated at 505,000 metric tons for November 2003 – October 2004 marketing year (MY 2004). The two largest private producers, Central Romana and the Vicini group, are expected to produce almost 400,000 metric tons of this amount, with other mills accounting for the remainder. Production levels for MY 2005 should increase slightly.

Domestic sugar consumption is fairly stable at 320,000 metric tons and evenly divided between raw and refined consumption. The general public consumes sugar mostly in raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. With refined sugar production at 140,000 metric tons for MY 2004, the country's total refined sugar needs are met and no imports are anticipated.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the highest single country allocation. The DR's initial TRQ allocation for MY 2004 is 185,335 metric tons and, under the new DR-CAFTA agreement, an additional 10,000 MT would be added to the current quota, growing at two percent a year. Ratification of the agreement will be pursued in both countries in 2004, with implementation in January 2005.

Production

The two largest private producers, Central Romana and the Vicini group, are expected to produce over 400,000 metric tons raw value in the November 2003–October 2004 marketing year (MY 2004), slightly higher than last year. Assuming normal conditions, the other mills combined could produce around 100,000 metric tons. Both Vicini and Central Romana regularly renovate their transport and milling facilities and adjust their production schedules to maximize harvest operations and increase total output.

The Dominican Republic was a strong raw sugar producer in the late seventies, when total output surpassed 1.2 million tons. Production gradually fell to a low of 371,000 metric tons in MY 1999. This production decline was mainly due to technical, administrative, and financial difficulties with the state-owned sugar mills controlled by the State Council of Sugar (Consejo Estatal del Azucar or CEA), the major producer. During CEAs golden years, they operated twelve mills producing almost two thirds of the country's output. Through a joint venture arrangement, all mills are now administered by private companies. As a result of the privatization process, production has become more stable.

In 1999, after long discussions, the Government of the Dominican Republic concluded the privatization of the deteriorated state-owned sugar mills. The administrative transfer of the mills to private hands took place in calendar 2000. This capitalization process concluded with a 30-year rental agreement with private firms. The Consorcio Azucarero del Caribe, a Zurcamex subsidiary (from Mexico), invested in five mills (Rio Haina, Ozama, Boca Chica, Quisqueya and Consuelo), but collapsed shortly afterwards**.** By MY 2003, a new version of the investment group called Central Azucarera Consuelo reemerged but with only two of the five mills (Boca Chica and Consuelo). A second company, Dominican-owned Consorcio Agroindustrial Caña Brava invested in two of the smallest mills (Monte Llano and Amistad). In this harvest, Monte Llano is expected to be in operation but the Amistad mill has been cannibalized and will not run again. A third local enterprise, the Central Pringamosa invested in two mills, Santa Fe and Porvenir; however, both mills are now closed, and the group has been taken over by the banks and not likely to return to sugar production. Finally a Dominican-French-American group owned by AMEROP sold the Barahona mill to a Guatemalan consortium, Consorcio Azucarero Central. This mill is operating successfully at partial capacity. A breakdown of official data on sugar output by producer group follows:

TOTAL SUGAR PRODUCTION BY COMPANY
MY 2001 - MY 2003, Metric Tons

Sugar Mill Group	MY 2001	MY 2002	MY 2003
Central Romana	318,900	272,272	317,810
Central Azucarera Consuelo	-	46,655	60,991
Grupo Vicini	66,728	59,408	80,893
Central Azucarera del Este	42,128	39,684	0
Consorcio Pringamosa	20,072	15,128	0
Consorcio Caña Brava	0	18,674	14,425
Consorcio Azucarero Central	12,015	11,965	23,007
Ingenio Cruz Verde	965	0	0
Total	***476,833***	***463,766***	***497,126***

Source: Dominican Sugar Institute (INAZUCAR) and post estimates.

Refined sugar production has decreased and it is estimated at 140,000 metric tons for MY 2004, which should meet the country's refined sugar needs. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry. According to the Dominican Sugar Institute (INAZUCAR) statistics for MY 2003, the sugar industry produced about 38 million gallons of molasses. In addition, Central Romana produced almost 30,000 metric tons of furfural.

Central Romana and the Vicini group generally begin the sugar harvest in early to late December, while Consorcio Azucarero Consuelo begins in January. As a result, the first group is able to process more cane before the rainy season interrupts the harvest in late June or early July. The second cycle sugar groups begin operations in June, including Concorcio Azucarero Central and Consorcio Caña Brava.

Rainfall patterns, fertilization, and labor are the main factors that determine sugar yield. Industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana, and sometimes other groups do minimal amounts of aerial spraying. Less than half of the land in sugar cane production is irrigated and, as a consequence, is subject to stress during dry periods.

The sugar industry requires about 35,000 full-time workers and an additional 20,000 workers during harvest. About 10 to 15 percent of sugar cane is harvested mechanically. The degree of mechanization will not increase in the future, unless labor costs increase, which is not likely.

Cane yields vary between 30 and 80 metric tons per hectare, depending upon location, rainfall patterns, available transport resources, cane varieties and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. During the last ten years, the sugar recovery rate averaged 10.6 percent, but has been lower during the most recent five years. In MY 2003, sugar recovery rates averaged 10 percent, while Central Romana is generally 12 percent. Estimates for MY 2004 are expected to change very little.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates have varied widely, however, between 8 and 12.5 percent. Sugar content also fluctuates between 7 and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Local cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic. Some of the sugar cane crosses used in the DR are CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Costs of production vary substantially from company to company, ranging from more than US$ 0.22 to US$ 0.14 per pound.

Consumption

Domestic sugar consumption is fairly stable at 330,000 metric tons and evenly divided between raw and refined consumption. The general public consumes sugar mostly in raw form, while the soft drink and juices and confectionary industries primarily use refined sugar. Central Romana is the only local refiner. It is currently producing about 150,000 metric tons and could not produce much more without additional investment.

The following table is derived from INAZUCAR data and shows the pattern of local sugar sales, although imported sugar is not reflected in this table.

LOCAL SUGAR SALES BY PRODUCERS
Metric Tons

Sugar type	CY 1999	CY 2000	CY 2001	CY 2002	CY 2003
Raw	122,917	160,825	195,243	189,184	184,440
Refined	84,151	115,150	117.956	154,036	134,455
Semi Refined	2,003	0	0	0	0
Total	209,971	275,977	313,199	343,220	318,895

Source: INAZUCAR and Industry.

Trade

Refined sugar consumption is down, due to a banking and economic crisis in 2003, which led to a sharp devaluation of the peso and reduction in Dominica purchasing power. Refined sugar production for MY 2003 was about 140,000 metric tons, which should meet the country's total refined sugar needs and make it unnecessary to import refined sugar. It is important to note, however, that some private producers have indicated that informal exports across the land border to Haiti may be large enough this year to create a small deficit. According to INAZUCAR data no sugar imports were authorized in MY 2003.

Import duties are 15 percent for raw sugar and 20 percent for refined sugar, plus a 12 percent ITBIS (value-added tax). Imports of sugar and sugar-based products still require permits from INAZUCAR (decree 576-96). With the tariff rate quota negotiated in the Uruguay Round in mind, the Dominican Republic has stated that it will issue permits for up to 23,000 metric tons imports on a first-come, first-serve basis. However, in MY 2003 the Secretary of Industry/INAZUCAR authorized no imports. With just the 20 percent tariff and 12 percent ITBIS, refined sugar imports (in quota) would enter the country a prices well below those of domestic sugar. Under the recently negotiated DR-CAFTA agreement, the DR will reduce its sugar duties to zero over 15 years.

There are two industries and sister companies operating as off-shore plants belonging to a special Free Trade Zone (Consejo Nacional de Zonas Francas de Exportacion [CNZFE]) operation, using sugar as a raw material. These companies are: Productos del Tropico and Caribex Dominicana and their major products for the export market are sweetened coconut milk and piña colada mix. They also produce juices and smaller quantities of canned red-pinto-beans and garbanzos, which contain some sugar. According to CNZFE, they are authorized to import/process and reexport as much as 6,600 of sugar per year. Sugar that is brought into the free trade zones and then reexported as finished products does not require an import permit and is not reflected in Dominican import statistics. Ag Office import estimates in this report do not include the free trade zone sugar.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the largest single country allocation of 16.4 percent of the total U.S. allocation for the world. The DR's initial TRQ allocation for MY 2004, at 185,335 metric tons, was the same as the previous year. Under the recently negotiated DR-CAFTA free trade agreement, an additional 10,000 MT would be added to the current quota, with two percent growth per year. The amount of the increase in the TRQ in the agreement was a severe disappointment for Dominican sugar producers. Final ratification of this agreement will be pursued in 2004, with implementation in January 2005.

As of mid March 2004, only 39,000 metric tons raw value had been exported to the United States under the 2003/04 TRQ. Most exports are now moving to the United States, because of price and proximity, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti. The following table presents monthly sugar exports to the United States, for the past five marketing years:

DOMINICAN MONTHLY RAW SUGAR EXPORTS TO THE UNITED STATES
MY 2000 - MY 2004

Month	99/00	00/01	01/02	02/03	03/04
January	0	571	11,205	6,150	24,847
February	159	6,453	6,000	272	6,527
March	182	17,943	12,694	18,402	
April	11,849	10,312	15,072	41,106	
May	24,602	16,684	37,274	26,797	
June	32,436	14,882	36,844	11,872	
July	38,018	35,013	22,136	28,963	
August	56,223	31,512	30,820	6,200	
September	10,886	16,177	6,800	38,877	
October	9,072	159	321	272	
November	3,800	341	227	45	
December	183	228	908	227	
Total Calendar Year	187,410	149,875	179,734	179,183	
Total Quota Year	-	178,866	179,563	-	-
Quota	185,346	185,346	185,346	185,335	185,335

Note: Values have not been adjusted to 98 degrees pol.
Source: INAZUCAR and post estimates.

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. Molasses, inverted sugar syrups, and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry.

According to preliminary INAZUCAR statistics for MY 2003, sugar exports to the U.S. preferential market represented about US$73 million. In addition, the sugar industry produced 38 million gallons of molasses. About 18 million gallons of which were used for local consumption and a similar quantity (valued at almost $9 million) was exported. In addition to molasses, 36,000 MT of furfural were exported, valued at about US$15 million.

Stocks

In addition to major producers, stocks are also held by middlemen and end users. As no imports were authorized in MY 2003, stock levels should remain between 20-30,000 MTRV. These values are not anticipated to change in the out year.

Policy

Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

For over thirty years, the U.S. sugar quota was divided among the three producers according to an established formula based on last three-year individual production levels. According to that formula, current allocations are: Central Romana 56.31 percent, Vicini 12.48 percent, Central Azucarero Consuelo 18.56 percent, Consorcio Azucarero Central, 7.87 percent, and Caña Brava 4.78 percent.

As part of its WTO rectification agreement, after the Uruguay Round, the Dominican Government established a tariff rate quota for 23,000 metric tons of sugar, with an in-quota tariff level of 20 percent. This gradually increased to 30,000 metric tons by the year 2004. Maximum out-of-quota tariffs were established at 100 percent, decreasing to 85 percent in 2004. Under the new DR-CAFTA agreement, the DR will phase out its sugar tariffs over a 15-year period.

Marketing

The Secretary of Industry and INAZUCAR establish the base price of raw, semi-refined and refined sugar. As a result, prices are stable. Producers sell directly to wholesalers and to large companies that use sugar in their product formulations.

As of February 26, 2004 the official sugar prices were as follows:

Official Prices for Sugar

Type of sugar	***Producer (per 100 lbs.)***	***Wholesaler (per 100 lbs.)***	***Retailer (per lb.)***
Raw	675.00	736.00	8.10
Semi-refined	N/A	N/A	N/A
Refined	810.00	890.00	9.90
Exchange rate per US$: RD$45			

Source: INAZUCAR

Retail prices for sugar have remained stable during the last twelve months. As of March 2004, prices for crude sugar ranged from US$0.18 to US$0.21 per pound (RD$8.10-10.00). Refined sugars ranged from US$0.22 to US$0.29 per pound (RD$10-13). Supermarkets generally sell raw sugar in two and five-pound packages, while small neighborhood stores (colmados) sell in very small amounts to meet the needs of lower-income consumers.

STATISTICAL DATA

PSD Table

Country Dominican Republic

Commodity Sugar Cane for Centrifugal (1000 HA)(1000 MT)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]	
Market Year Begin		11/2002		11/2003		11/2004	MM/YYYY
Area Planted	250	250	250	250	0	250	(1000 HA)
Area Harvested	240	240	242	240	0	240	(1000 HA)
Production	5000	5070	5100	5150	0	5200	(1000 MT)
TOTAL SUPPLY	5000	5070	5100	5150	0	5200	(1000 MT)
Utilization for Sugar	5000	5070	5100	5150	0	5200	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	5000	5070	5100	5150	0	5200	(1000 MT)

PSD Table

Country Dominican Republic

Commodity Centrifugal Sugar (1000 MT)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]	USDA Official [Old]	Estimate [New]	
Market Year Begin		11/2002		11/2003		11/2004	MM/YYYY
Beginning Stocks	29	29	25	22	23	22	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	490	497	495	505	0	508	(1000 MT)
TOTAL Sugar Production	490	497	495	505	0	508	(1000 MT)
Raw Imports	0	0	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	16	0	15	0	0	0	(1000 MT)
TOTAL Imports	16	0	15	0	0	0	(1000 MT)
TOTAL SUPPLY	535	526	535	527	23	530	(1000 MT)
Raw Exports	183	183	183	183	0	187	(1000 MT)
Refined Exp.(Raw Val)	2	2	2	2	0	2	(1000 MT)
TOTAL EXPORTS	185	185	185	185	0	189	(1000 MT)
Human Dom. Consumption	325	319	327	320	0	320	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	325	319	327	320	0	320	(1000 MT)
Ending Stocks	25	22	23	22	0	21	(1000 MT)
TOTAL DISTRIBUTION	535	526	535	527	0	530	(1000 MT)